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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 002256

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SUBJECT: MINISTER OF ELECTRICITY HAS A PLAN, BUT LACKS
FINANCIAL AND POLITICAL CAPITAL

Classified By: DCMAT PHASLACH for reason 1.5(b,d)

¶1. (C) Summary: In a wide-ranging initial meeting with DCM for Assistance Transition Patricia Haslach, Minister of Electricity Karim Hasan outlined Iraq's significant infrastructural challenges; discussed his plans for short-term financing of an ongoing multi-billion dollar electricity generation project; and complained that opponents of the Maliki administration were attacking him and his ministry for political gain. After thanking the USG for its generous support in developing Iraq's electricity infrastructure, Hasan requested an additional "three to four billion" dollars in USG assistance. DCMAT politely rebuffed that request and outlined what support was available. She also suggested Hasan seek financing from the International Financial Institutions, and said a good opportunity to engage private investors would be at the October U.S.-Iraq investment conference in Washington. Hasan indicated he plans to raise his assistance request with other USG interlocutors, including the Commanding General of Multi-National Forces Iraq. End Summary.

The Plan

¶2. (C) Hasan said there is a ten-year plan for electricity development in Iraq, initiated jointly with the Iraq Transition Assistance Office (ITAO), the U.S. Army Corps of Engineers Gulf Region District (GRD), and the United Nations Development Program (UNDP). Started in 2004, this generation, transmission, and distribution program suffered from slow implementation as poor security conditions and weak interest from investors impeded execution through most of 2006, 2007, and early 2008. The plan has picked up momentum since then; charts show a gentle upward trend in available electricity nation-wide since 2008) though supply is still far below demand. Hasan asserted that the plan will allow the Ministry of Electricity (MoE) to meet all electricity demand in Iraq by 2012. (Comment: ITAO electricity experts) intimately familiar with MoE's technical and financial operations) assess that there is virtually no chance of meeting this deadline and that the chances of reaching such an ambitious goal over the next ten years are slim. End comment.)

Passing the Buck

¶3. (C) Hasan complained that other members of the GOI are impeding his efforts to meet his 2012 deadline. His electricity strategy depends critically on an integrated fuels plan, which Hasan said was agreed to by the Ministry of Oil, but never executed. As a result, Hasan said, not enough fuel is supplied to electricity generating plants. Making matters worse, he added, Kuwait stopped delivering refined products in May (for "political reasons"), and shipments of nearly one million liters per day of refined products from Iran have been disrupted by recent electoral unrest in that country. Hasan said his ministry has resorted to trucking

fuel from Iraq's northern region, though that is not the way" to solve his long-term fuel supply problems. He said he has raised the fuel issue repeatedly inside the GOI, but "no one is listening." As an example, Hassan cited a \$50 million plan to bring crude oil production on-line in the East Baghdad oil field to supply nearby Qudas power plant. Hasan said the plan was summarily rejected by the MoO, which claims it has its own plan for the field, though no work has yet been done, leaving his power plants short of fuel.

Paying for (40 Percent of) It All

14. (C) Hasan turned next to concerns about financing investment in the electricity sector. Under an agreement with General Electric and Siemens, the GOI plans to install 10,660 Megawatts of electrical generation over the next five years. The capital goods (turbines and other equipment) will cost \$5 billion, of which \$2 billion are currently in arrears but are expected to be paid this year. (Note: The Central Bank of Iraq (CBI) and the Ministry of Finance are finalizing the issuance of \$2.4 billion in short-term treasury bills to pay this installment for the electrical equipment. End note.) Hasan criticized CBI Governor, Sinan Al-Shibibi, for opposing this financing, saying he was "not very honest" when he claimed that issuance of these debt obligations would precipitate a devaluation of the Iraqi dinar. (Comment: Lost in the financing debate is the fact that the \$5 billion covers only this year's portion of the capital equipment, which is only 40 percent of the estimated total cost of the project. The project also includes an additional \$7 billion in Engineering, Procurement, and Construction (EPC)

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contracts. End comment)

15. (SBU) Hasan proposed several ways to confront this looming payment crisis. First, he plans to reschedule payments with both GE and Siemens, seeking longer repayment periods of 15 and 8 years, respectively. He then plans to use \$600-700 million in funds saved by the rescheduling to begin EPC contracting. He is also in talks with the World Bank and others over a proposed 500 million facility for the power sector, though he said "this is not enough."

Hat in Hand: Brother Can You Spare \$4 Billion?

16. (C) Hasan's boldest proposal was his request that the USG) specifically the Department of Defense) reprogram several billion dollars from its Iraq and Afghanistan programs and use them instead to continue reconstruction of Iraq's electrical sector. "I'm not asking for \$100 billion," he said matter-of-factly, "only three to four billion, not more." Explaining why these funds should come from DOD, he stated that "security (in Iraq) is not just military, but also economic, and the prime mover of the economy is energy."

A well-executed energy development strategy "could prevent bloodshed on both sides," he said. Hasan also pointed out that much of this money would be used to pay U.S. suppliers of capital goods and U.S. contractors. He "very conservatively" estimated that his 2010 budget will be as lean as his 2009 budget, and that he could not fill the expected financial shortfall with private capital. Hasan stated that commercial banks "fear the instability and poor project execution" that they perceive in Iraq and "are not interested" in large-scale investments here. Without USG assistance, Hasan said, "it would be difficult, not to survive, but to develop the country."

Woe is Me

17. (C) Hasan noted at several points during the discussion that "they are attacking me to get to Maliki." He complained

that "they" (and in particular some members of Parliament) "do not understand what we are doing" in rebuilding the energy sector. Nor, he said, do they understand the financing issues involved in that development. "I have no money, no fuel, no water, and now I have to defend myself from political attacks." Hasan claimed that all his power plants would be available to generate power, if not for a shortage of oil. This reflects badly on the Ministry of Electricity and himself, he said, and the resulting electricity shortage is exploited by political opponents to attack Maliki through him. (Comment: Contrary to the Minister's assertion, not all the installed electricity generation capacity in Iraq is fully functional and available to produce power. However, as unlikely as it seems that an oil exporting country would run short of fuel for electricity, we find that allegation credible. We know, for instance, that Iraq's refineries have been similarly undersupplied with feedstock in order to maximize the GOI's crude oil exports and therefore hard currency earnings. Ironically, Iraq continues to flare (burn off) "excess" natural gas that could be used to fuel electricity generation, because there is no infrastructure to capture, process, and transport the gas to the power plants. End comment.)

DCMAT Encourages GOI to seek IFI and Private Sector Funds

18. (SBU) DCMAT Haslach noted that the USG has provided nearly \$4 billion in assistance to date to rebuild and expand the electricity sector in Iraq. The USG role is changing, she said, as we move away from military engagement and building infrastructure projects and move towards diplomatic and development assistance and providing training and capacity building. The USG does not have another \$4 billion dollars to provide for power sector infrastructure in Iraq, the DCMAT said. For that level of investment, the GOI should increasingly turn to the World Bank and other International Financial Institutions (perhaps including EXIM and OPIC, once Iraq is placed on-cover). She also encouraged the GOI to court private investment, and encouraged the Minister to participate in the October U.S.-Iraq investment conference in October. The Minister had been unaware of that conference and expressed a desire to attend.

19. (SBU) The DCMAT also highlighted continuing USG support totaling \$30 million to upgrade security at key power plants and substations, as well as USG willingness to continue to work with the GOI on developing its energy sector "Master Plan." That said, the DCMAT continued, the USG will not be able to continue funding a contract with DLA Piper to provide

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technical and legal assistance to the MoE, though the MoE could continue that contract using its own funding. The DCMAT encouraged the Minister to seek technical assistance and advice regarding capacity building and the drafting and issuing new electricity laws and regulations. "Attention to the regulatory framework" will be critical to the GOI's ability to attract foreign direct investment into the power sector, she said.

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